



**CalPERS**  
**Investment Office**

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

September 16, 2005

**AGENDA ITEM 4a**

**TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Revision of Active International Fixed Income – Externally Managed
- II. PROGRAM:** Active International Fixed Income
- III. RECOMMENDATION:** Approve the reading and recommend to the Investment Committee approval of the Statement of Investment Policy for Active International Fixed Income - Externally Managed.
- IV. ANALYSIS:**

At the June 13, 2005 Investment Committee meeting, the Board approved the Foreign Debt Policy which changed the minimum permissible credit rating on local currency debt and global debt to BBB- and BB- respectively. This policy statement incorporates those changes for the International Fixed Income program and several other points.

**Summary of Important Changes**

- Places minimum credit ratings of BBB- for local currency and BB- for global debt. (Page 4 Section V.D.1 and 2)
- Updates the program benchmark to the Lehman Brothers International Fixed Income Index from the Salomon Smith Barney Non U.S. World Government Bond Index. (Page 4 Section VI)
- Since the emerging markets are now a part of the benchmark, debt limits on emerging markets will be benchmark plus 5% (Page 3 Section V.A.2). As of the end of July 2005, the benchmark has 4.7% emerging market exposure. Therefore, the maximum allocation to emerging markets would be 9.7%. Under the current 5% limit, it is

conceivable that the benchmark could exceed 5% weighing; thus, limiting the alpha potential from sector allocation by external managers. A benchmark plus 5% debt limit provides a dynamic policy that will limit CalPERs' emerging market exposure, provide external managers with alpha potential, and respond to market forces.

**V. STRATEGIC PLAN:**

This item is consistent with the Strategic Plan, Goal IV, to assure that sufficient funds are available, first, to pay benefits and, second, to minimize and stabilize employer contributions.

**VI. RESULTS/COSTS:**

This Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns with the management and oversight of the Program.

---

Jonathon O'Donnell  
Investment Officer

---

Eric Busay  
Portfolio Manager

---

Curtis D. Ishii  
Senior Investment Officer

---

Anne Stausboll  
Assistant Executive Officer

---

Mark Anson  
Chief Investment Officer